

BUSINESS DEVELOPMENT SERVICES Guiding Principles, ADAPTED FROM USAID/WASHINGTON: OFFICE OF MICROENTERPRISE DEVELOPMENT

The grantee is expected to provide innovative solutions to growing the private sector and reducing poverty in the context of Zambia's substantial opportunities. While openness and flexibility will be key to creative approaches to achieving the Mission's competitiveness strategy, below are some key lessons learned/principles that USAID believes are important to incorporate into the grantees' approach:

Principle: Promoting competition all along the value chain - amongst sub sector participants and service providers - enhances the performance, resiliency, and competitiveness of the industry cluster or sub sector. Competition has consistently been identified as a critical element to achieving sustainable private sector growth. Stimulating competition requires working with multiple firms and encouraging a level playing field. Competition should be stimulated at all levels, including among lead firms within a sub sector, among service providers, and among SMEs. Caution should be taken to understand the qualitative nature of competition with efforts that focus on limiting competition that is solely based on price, while facilitating competition that is based on quality and innovation and encouraging strategic cooperation when appropriate

Principle: Reaching and incorporating large numbers of poor into the private sector is a prerequisite to the longer term stability and economic growth of a country. Specific tools and methods to commercially link SMEs and larger firms along a value chain are critical to the success and growth of a sub sector. Consideration must also be given to improve the position SMEs have within the value chain and to encourage longer-term win-win relationships between all the businesses within an industry cluster.

Principle: An effective strategy for increasing the participation of large numbers of SMEs in the economy is to link those – using commercial methods - into growing/dynamic sub sectors. Sub sector-specific value chains represent opportunities for many SMEs to gain access to the mainstream economy. In linking SMEs, consideration must also be given to improving the position SMEs have within the value chain and to encouraging longer-term win-win relationships among all businesses within an industry cluster.

Principle: Effectively linking SMEs into sub sector-specific value chains requires attention to: (1) service delivery mechanisms that reduce transaction costs; and (2) payment mechanisms tailored to the cash-flow realities of SMEs, especially those that are rural based. Linking smaller firms to larger ones within a supply chain can produce win-win relationships by providing larger firms with flexible sources of supply for meeting large orders and small firms with new markets. The transaction costs of working with smaller firms can be reduced in many instances by grouping micro businesses. Grouping facilitates the bulking SMEs' output, the purchase of inputs, and the provision of services.

Principle: Sustainable MSME participation in the economy is achieved by using commercial solutions to addressing entrepreneurs' constraints in entering, performing, and/or benefiting from access to new or existing markets. Commercial solutions to market linkages, production quality and quantity constraints, finance, access to and proper use of improved inputs and other constraints are most effective in ensuring that SMEs are sustainably integrated into growing sub sectors.

Principle: Vibrant business service markets are key to the longer-term viability of a sub sector or industry. The longer term competitiveness of a sub sector or industry is dependent upon a range of business services that support and facilitate improved performance throughout the value chain. Business services markets should be stimulated through both supply and demand facilitation interventions, and result in commercially viable delivery and payment mechanisms.

Principle: Developing local capacity for service provision is key to the longer-term viability of a sub sector or industry. The longer-term competitiveness of a sub sector or industry is dependent upon a range of business services that support and facilitate improved performance throughout the value chain. Moreover, ensuring sustainable impacts requires an exit strategy that results in local capabilities to commercially address key sub sector constraints. A plan for exiting needs to be established upfront, at the start of a project, especially in cases where direct provision of technical assistance to an enterprise or group of enterprises is proposed.

Principle: Sustainability is achieved when sub sectors or industry clusters are able to effectively respond to dynamic challenges resulting in increased competitiveness domestically, regionally, and globally. Obtaining sustainable impacts requires an exit strategy that results in local capabilities to commercially address key constraints from the start, especially in cases where direct provision of technical assistance to an enterprise or group of enterprises is proposed.

Principle: All developing countries are faced with a wide range of development issues that must be considered as part of any private sector project, including: international standards, environmental degradation, affects of HIV/other diseases, and disadvantaged populations such as women and rural isolated communities. Proper consideration of these issues within the context of a viable private sector development strategy is critical to enhancing the longer-term impacts of any MSME development project.

Principle: Monitoring and evaluation systems provide critical information that is required to effectively manage the project for results. While USAID needs to a report on specific indicators, M&E systems deliver information that allows USAID and contractors to discern progress towards given objectives, provide the basis for beneficial mid-course corrections, and assess the project's performance. Evaluation is needed to understand causality, i.e. did our interventions result in economic growth and poverty alleviation? It is also meant to answer questions of attribution, i.e. can we attribute measured impacts to project interventions?